

VZCZCXRO9481  
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR  
DE RUEHMD #0414/01 1170800  
ZNR UUUUU ZZH  
R 270800Z APR 09  
FM AMEMBASSY MADRID  
TO RUEHC/SECSTATE WASHDC 0550  
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEHLA/AMCONSUL BARCELONA 3962  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 MADRID 000414

SIPDIS

STATE FOR EUR/WE, EEB/IFD/OMA, EEB/CIP/BA  
TREASURY FOR OIA/OEE/T.O'KEEFFE,D.WRIGHT  
COMMERCE FOR 4212/D.CALVERT

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [ELAB](#) [SP](#)  
SUBJECT: MADRID ECONOMIC WEEKLY, APRIL 20-24

REF: A. MADRID 397  
[1](#)B. MADRID 336

MADRID 00000414 001.2 OF 002

#### Contents:

ELAB: Unemployment Above 17%  
ECON: IMF Predicts 3% GDP Decline in 2009  
ECON: IMF Questions GOS Room for More Spending  
EFIN: Cajas Continue to be a Concern  
EFIN: Fitch Lowers Caja Madrid, Other Ratings  
EFIN: Valuation Complicates Cajas' Real Estate Assets Plan

#### Unemployment Above 17%

1.(U) The unemployment rate rose to 17.3% in the first quarter of the year, up more than 3% from the fourth-quarter 2008 rate. This is the highest rate since 1998. More than 4 million Spaniards are now unemployed, 84% more than were unemployed a year ago. (National Statistics Institute, 4/24)

#### IMF Predicts 3% GDP Decline in 2009

2.(U) The IMF predicted that Spain,s GDP will contract by 3% this year and 0.7% next year. The 2009 prediction is a 1.3% deterioration from the IMF,s previous prediction for the same year, released in January. The Bank of Spain recently predicted similar contractions of 3% this year and 1% next year. These forecasts are significantly more pessimistic than the most recent GOS predictions, made somewhat earlier, of a 1.6% contraction this year and 1.2% growth in 2010. Equally troubling is that the IMF expects a slow recovery, with growth only reaching 2% in 2014. (El Pais, 4/23-24)

#### IMF Questions GOS Room for More Spending

3.(U) In presenting the IMF's report on Spain, the IMF's country economist warned that the GOS had little room for additional spending. New Second Vice President and Economy/Finance Minister Elena Salgado emphasized that the GOS continues to have room for additional spending. She did, however, warn that the GOS would have to be "more selective" in choosing projects. Press reports speculate that Salgado was named because she would be more aggressive about increasing spending than was her predecessor, Pedro Solbes. (Comment: Most analysts now expect this year's GOS budget deficit will be over 6% of GDP, and this does not include deficits of regional and municipal governments.) (El Pais, 4/23-4/24)

#### Cajas Continue to be a Concern

4.(U) Although the GOS has only had to intervene in one financial institution so far (Ref B), there is a widespread expectation that others, primarily savings banks ("cajas"), will face difficulties as the newly unemployed have trouble making their mortgage payments. According to one report, central bank Governor Fernandez Ordonez told legislators the names of seven cajas that are in such bad shape that the central bank is requiring daily deposit reports. The GOS is reported to be finishing plans for a financial sector rescue fund aimed at cajas. The fund would contain about 40 billion euros, some 30 billion of which would come from remaining funds in the GOS' financial asset acquisition fund (FAAF) created last year. (The GOS has reportedly decided to stop FAAF purchases after buying almost 20 billion euros of assets, as institutions are said to have covered their most urgent liquidity needs and no longer find the terms attractive.) The rest of the financing for the financial sector rescue fund would come from the existing deposit guarantee funds for cajas, banks, and cooperatives, and from banks and cajas themselves. The cajas welcome reports of creation of the fund, while the banking association appears to object to the use of public funds to support individual cajas. Separately, there are conflicting reports as to whether a revision to the regulatory framework for cajas will be ready in a month or so or has been shelved because of political party opposition to reducing political control over the cajas. (El Confidencial, 4/21-22-23; ABC, 4/23; El Pais 4/21-23-24)

#### Fitch Lowers Caja Madrid, Other Ratings

5.(U) The Fitch credit rating agency lowered its long-term rating on Caja Madrid from AA-minus to A-plus, citing its exposure to construction companies. Caja Madrid, Spain's

MADRID 00000414 002.2 OF 002

fourth largest financial institution, reported earnings of 357 million euros in the first quarter of 2009, up 1 percent from its first-quarter 2008 figure. However, its loan delinquency rate reached 5.6%, four times its level of a year earlier and higher than the 4.6% figure for cajas as a whole. Fitch also lowered its rating for CajaSur to BB-plus, giving it junk bond status, and its rating for Caja Granada from A-minus to BBB-plus. CajaSur's delinquency rate is 6.4%. Unlike most cajas, the Cordoba-based CajaSur is not controlled by a regional or local government, but by the Catholic Church. (El Pais, 4/22-23)

#### Valuation Complicates Cajas' Real Estate Assets Plan

6.(U) According to one report, plans to collect troubled real estate assets of 23 or more cajas in a separate vehicle, Ahorro Corporation (ACSI), are foundering over disagreements over asset valuation. ACSI would issue stock to participating cajas in return for their real estate assets, providing tax and regulatory advantages. Initially interested cajas are now said to be reluctant after ACSI's assessor indicated that it would require valuations that would force the cajas to recognize significant losses. (El Confidencial, 4/21)

CHACON